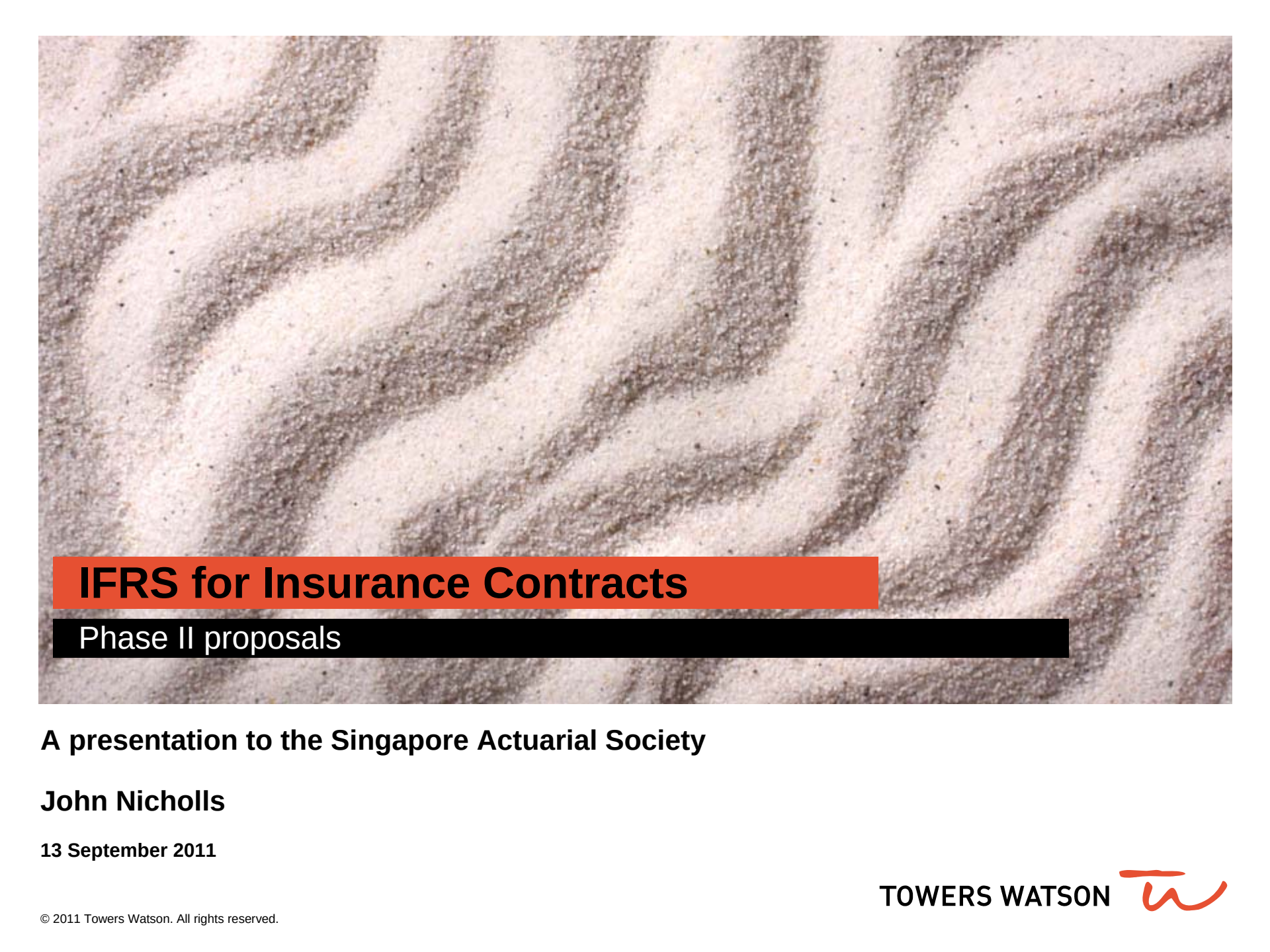




IFRS for Insurance Contracts

Phase II proposals

A presentation to the Singapore Actuarial Society

John Nicholls

13 September 2011

Agenda

- Background
- The Phase II proposals for accounting for insurance contracts
- Implications of the proposals
- The role of supplementary financial reporting

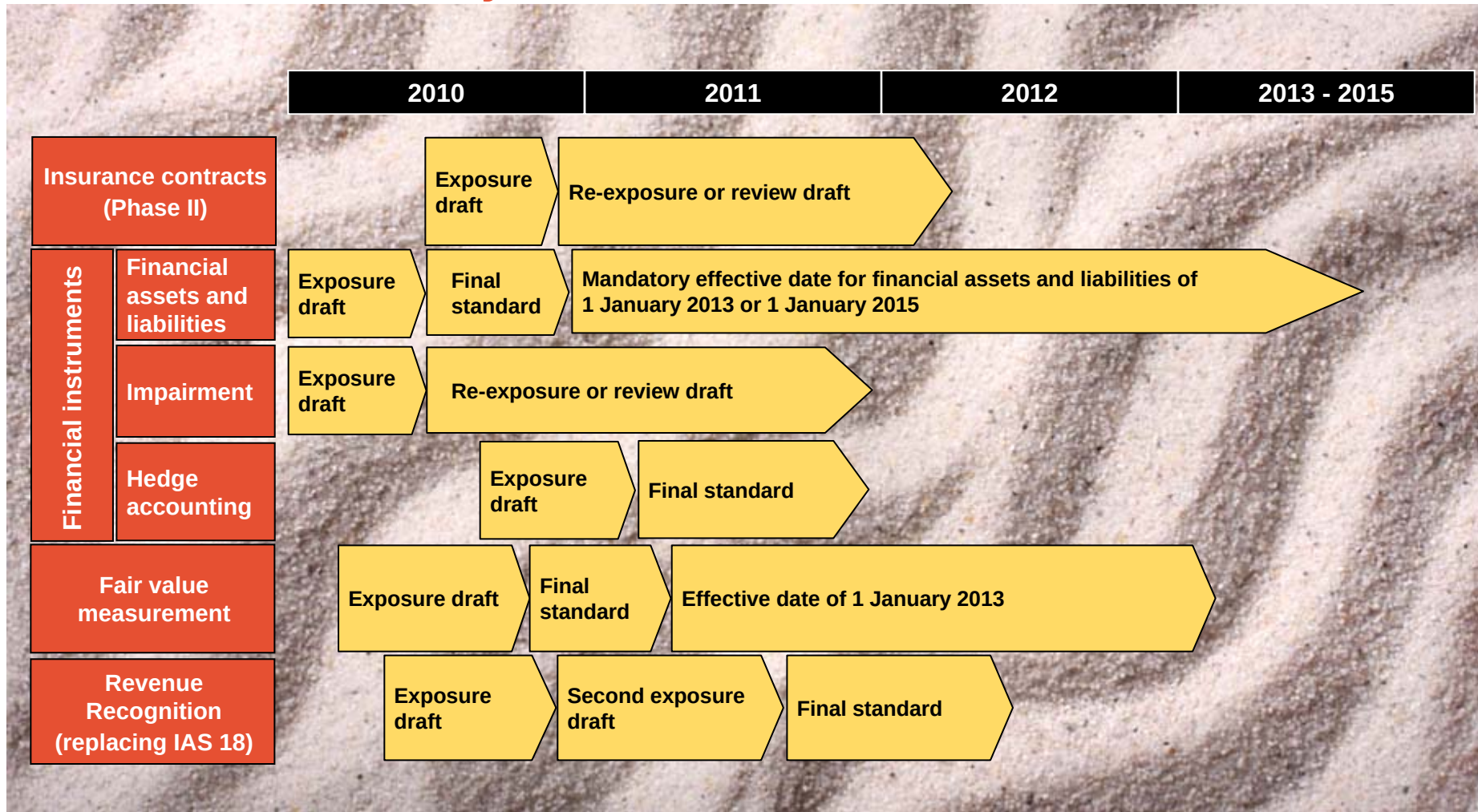
Singapore insurance contract measurement

- Insurance (Valuation and Capital) Regulations 2004
 - Non-participating: gross premium valuation, with provision for adverse deviation
 - Unit-linked: account value and non-unit reserve
 - Participating: the greater of:
 - Value of guaranteed benefits less receipts, plus value of non-guaranteed benefits, plus any provision for adverse deviation
 - Minimum condition liability
 - Value of assets
- SAS GN L02
- MAS Notice 319: Valuation of Policy Liabilities of Life Business

Singapore accounting standards

- Insurance (Valuation and Capital) Regulations 2004
 - *Valuation of liabilities 18.—(1) Unless otherwise provided for in this Part, a registered insurer shall value any liability of an insurance fund in accordance with the Accounting Standards and sound actuarial principles.*
 - *"Accounting Standards" has the same meaning as in section 4 (1) of the Companies Act (Cap. 50)*
 - *"Accounting Standards" means the accounting standards made or formulated by the Accounting Standards Council under Part III of the Accounting Standards Act 2007 and applicable to companies and to foreign companies in respect of their operations in Singapore for the purposes of this Act*
- *While the ASC will track closely the introduction of new International Financial Reporting Standards (IFRS) for possible application in Singapore, it will also take into account the local economic and business circumstances and context, as well as the entity to which the accounting standards would apply to.*
- Financial Reporting Standard 104 Insurance Contracts

Future IFRS is not just about insurance contracts

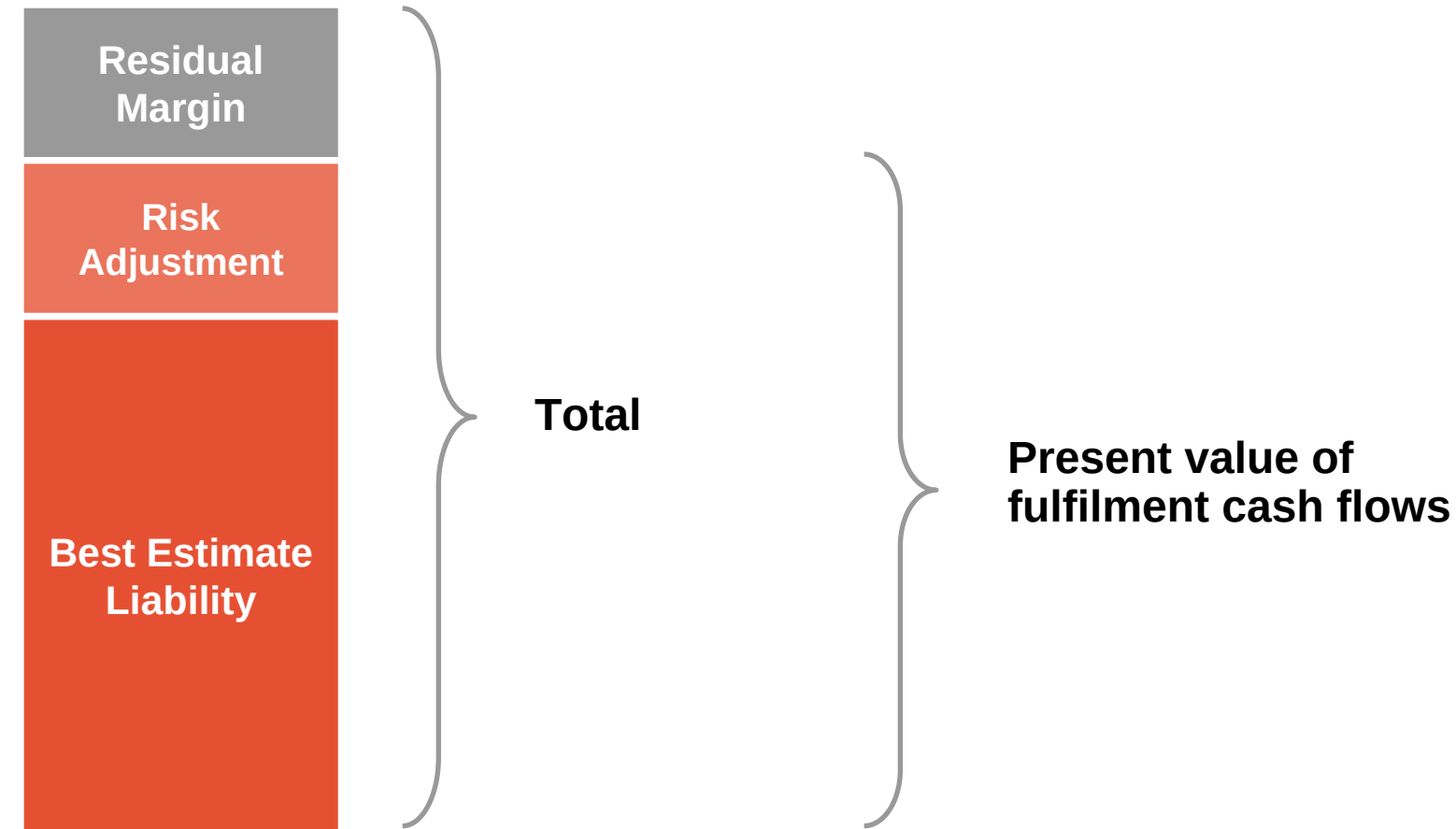


To understand the impact on an insurer's financial statements, the above proposals need to be considered in combination

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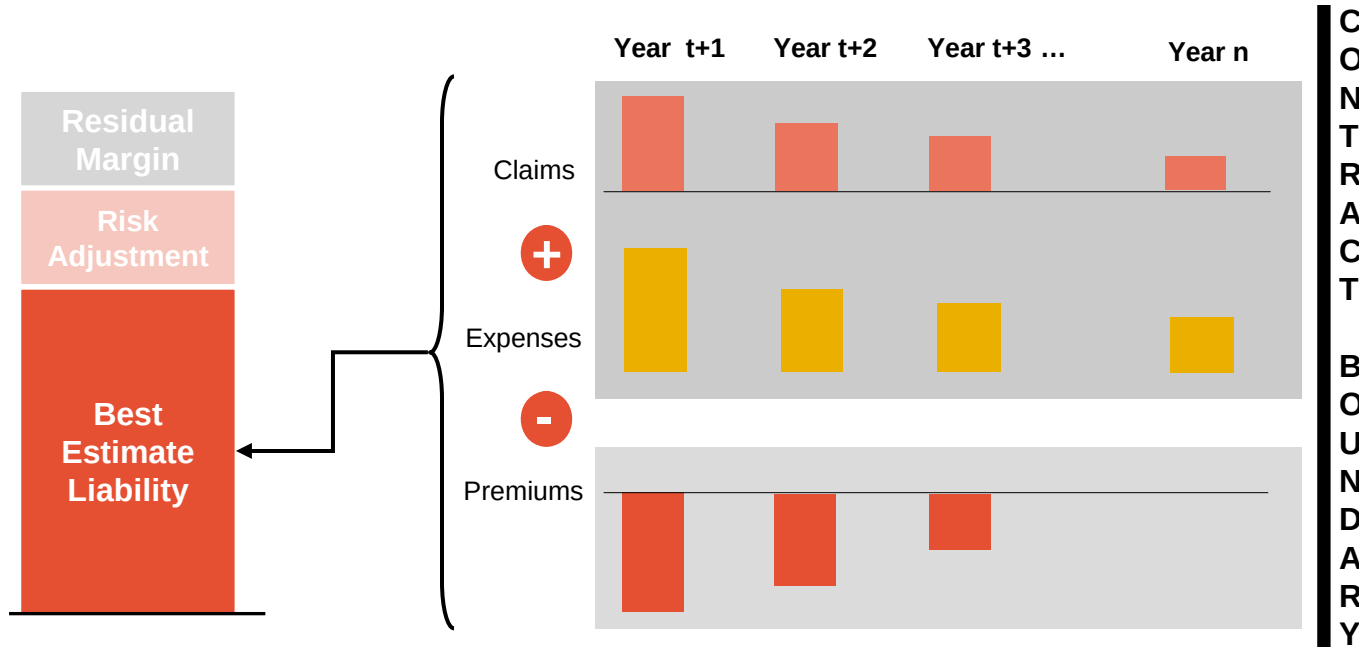
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Insurance contract measurement – overview



Note: some short duration contracts use a different measurement model (see later slide)

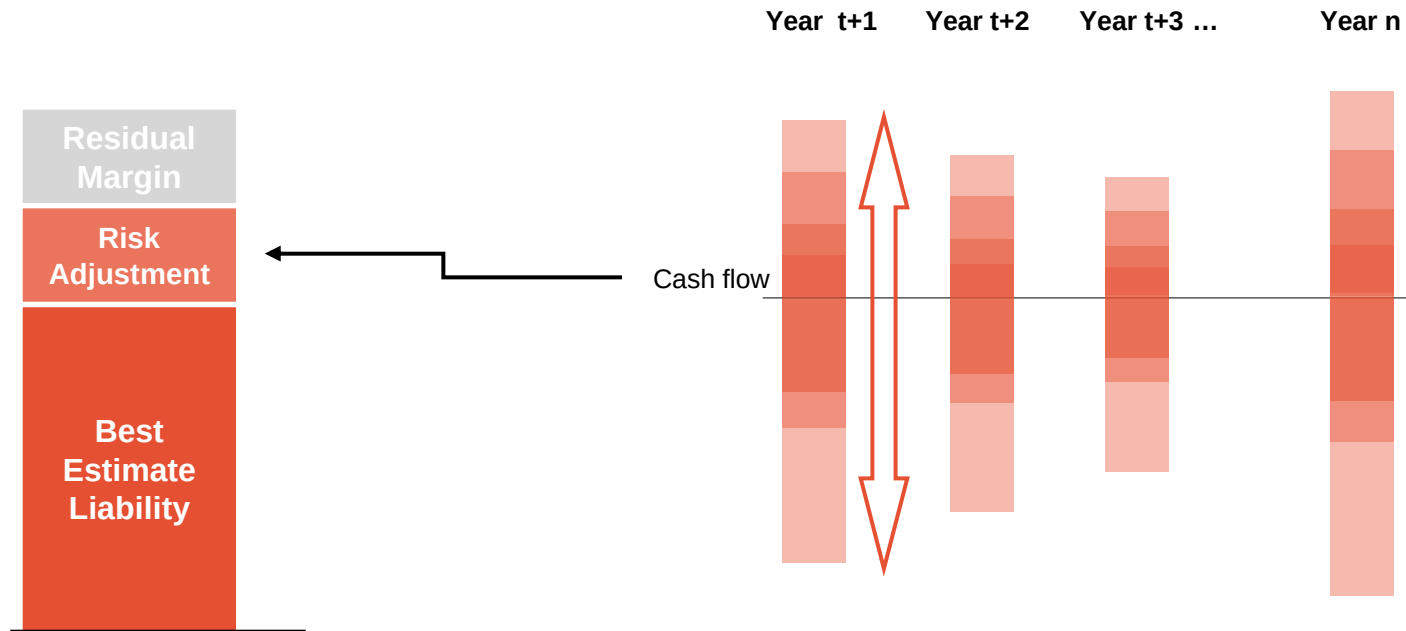
Expected present value of future cash flows



Expected present value of future cash flows

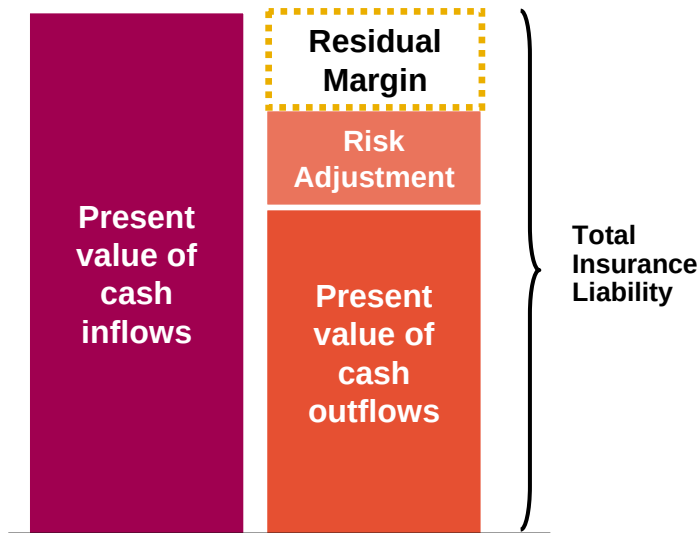
- Unbiased, probability-weighted estimate of future cash flows
- Allow for time value of money

Risk Adjustment

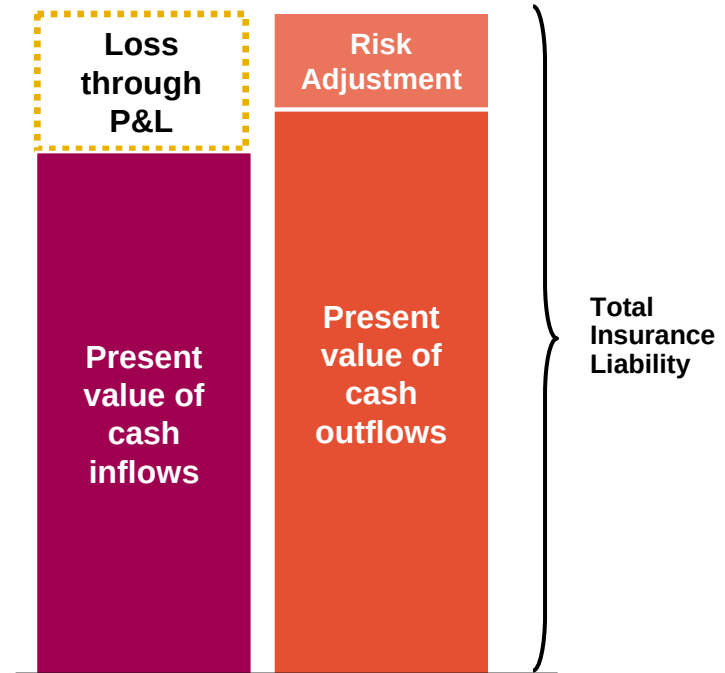


“The risk adjustment shall be the compensation the insurer requires to bear the risk that the ultimate cash flows exceed those expected.”

Residual Margin



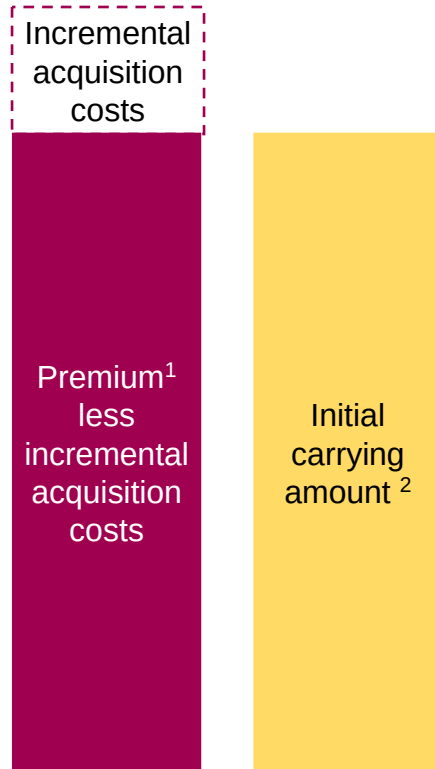
Profit generating
Insurance contract



Loss generating
Insurance contract

Short duration contracts: pre-claims obligations

Initial recognition



Subsequent measurement

- Reduce the initial liability in a systematic way:
 - Passage of time; or
 - Expected timing of claims and benefits if different
- Onerous contracts test

¹ Present value of future premiums

² Unearned premium approach **required** for pre-claim liabilities of short-duration insurance contracts

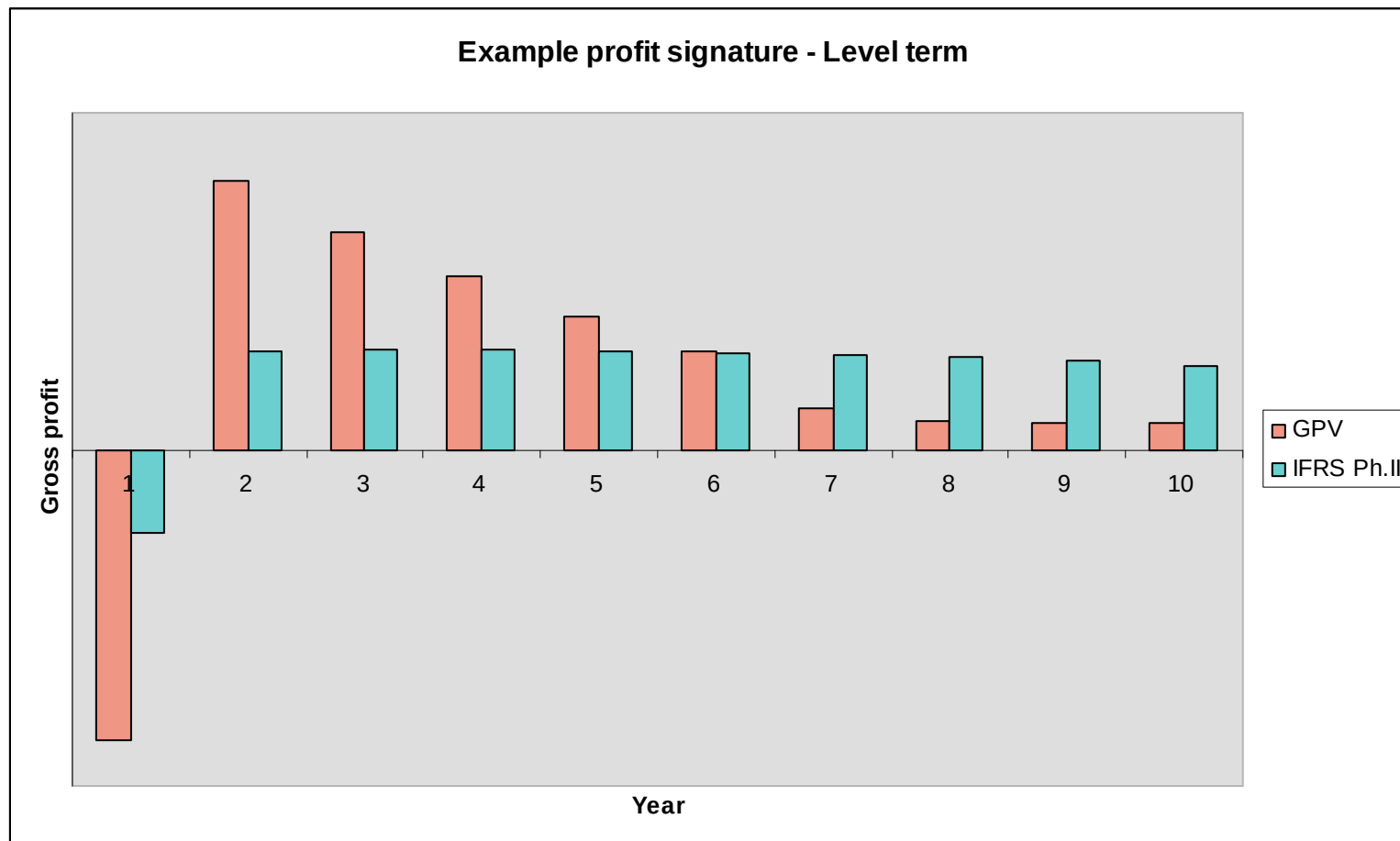
Presentation – Building block approach

Change in Residual Margin		100
Change in Risk Adjustment		120
Sub-total		220
Premium Due	1,005	
less Premiums Expected	(1,000)	5
Actual Benefits	(510)	
less Benefits Expected	500	(10)
Actual Expenses	(205)	
less Expenses Expected	200	(5)
Experience adjustment		(10)
Change in assumptions		(25)
Underwriting margin		185
Non-incremental acquisition expenses		(10)
Interest accreted on the expected net cash flows		(450)
Investment income		600
Change in discount rates		(100)
Income before tax		225

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Level term profit signature



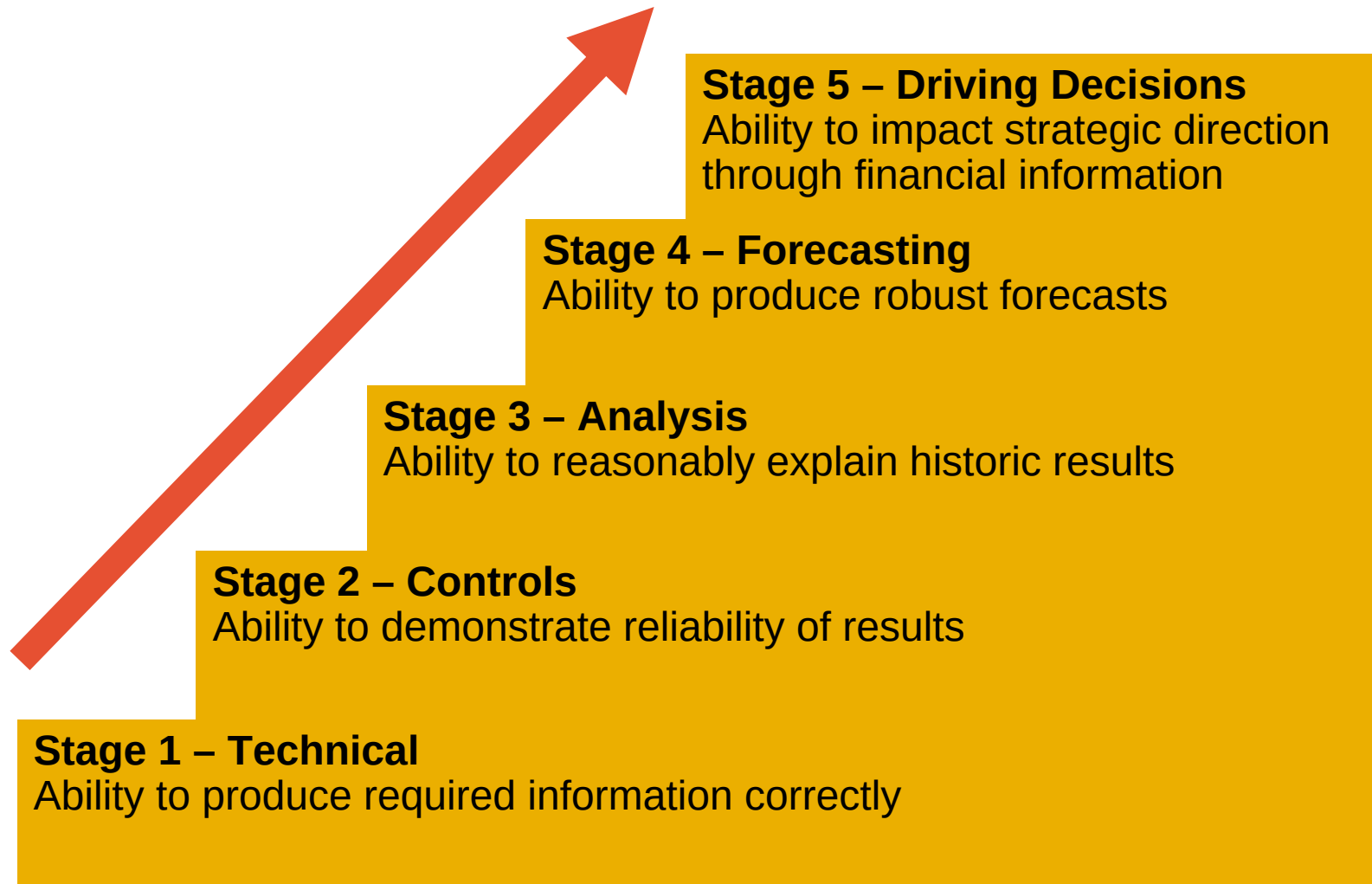
Immediate annuity profit signature



Implications for financial models

- Areas to consider
 - Cash flows
 - Unbundling
 - Contract boundaries
 - Non-incremental expenses
 - Asymmetric cash flows
 - Risk adjustment
 - Need for a stochastic model
 - Residual margin
 - Dependence from one valuation to the next
 - Presentation and disclosure
 - Expected cash flows
 - Movement analysis
- Market-consistent model, including ability to value financial options and guarantees

Five stages of financial reporting evolution



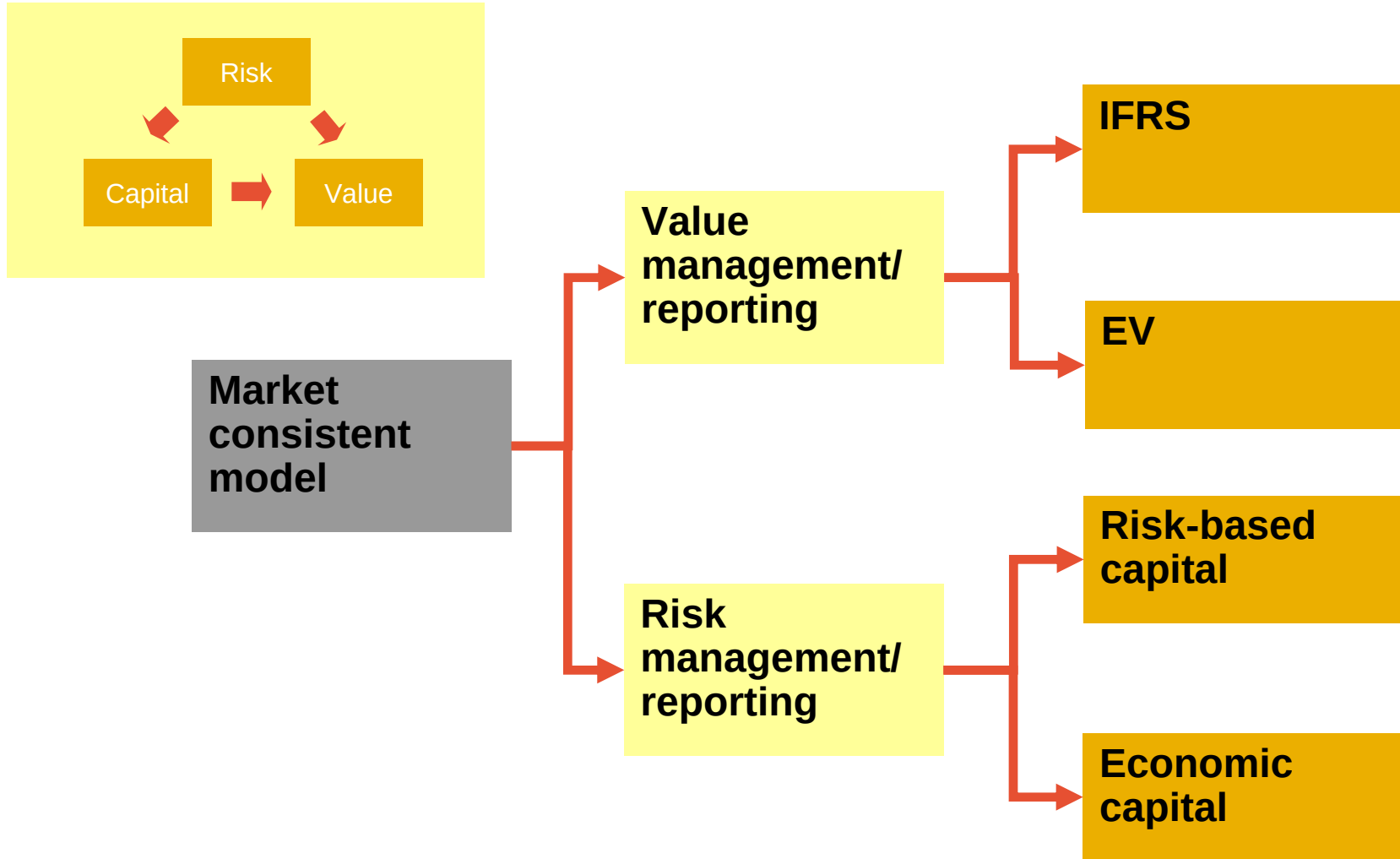
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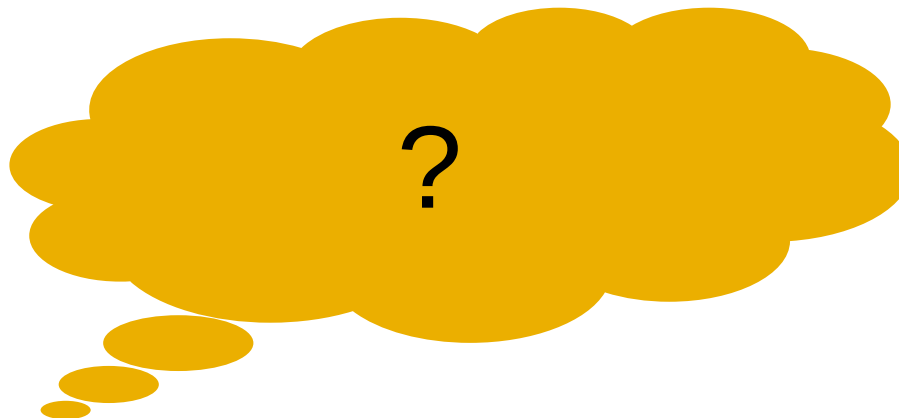
Supplementary financial reporting

- Reflect value creation to shareholders, and sensitivity of shareholder value
 - Traditional embedded value
 - European Embedded Value
 - Market Consistent Embedded Value
- Phase II proposals:
 - Hybrid approach
 - May not clearly identify contribution from new business
- Other benefits of supplementary measures:
 - Apply across different types of business
 - Consistency over time

Getting the most out of your financial model



Questions...



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